



House of Representatives

General Assembly

File No. 641

February Session, 2018

House Bill No. 5581

House of Representatives, April 23, 2018

The Committee on Finance, Revenue and Bonding reported through REP. ROJAS of the 9th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CONCERNING FEDERAL TAX BENEFITS AND THE CAPITAL STOCK TAX RATE.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subparagraphs (A) and (B) of subdivision (20) of
2 subsection (a) of section 12-701 of the 2018 supplement to the general
3 statutes are repealed and the following is substituted in lieu thereof
4 (*Effective from passage and applicable to taxable years commencing on or after*
5 *January 1, 2017*):

6 (20) "Connecticut adjusted gross income" means adjusted gross
7 income, with the following modifications:

8 (A) There shall be added thereto:

9 (i) ~~[to]~~ To the extent not properly includable in gross income for
10 federal income tax purposes, any interest income from obligations
11 issued by or on behalf of any state, political subdivision thereof, or
12 public instrumentality, state or local authority, district or similar public

13 entity, exclusive of such income from obligations issued by or on
14 behalf of the state of Connecticut, any political subdivision thereof, or
15 public instrumentality, state or local authority, district or similar public
16 entity created under the laws of the state of Connecticut and exclusive
17 of any such income with respect to which taxation by any state is
18 prohibited by federal law; [.]

19 (ii) [any] Any exempt-interest dividends, as defined in Section
20 852(b)(5) of the Internal Revenue Code, exclusive of such exempt-
21 interest dividends derived from obligations issued by or on behalf of
22 the state of Connecticut, any political subdivision thereof, or public
23 instrumentality, state or local authority, district or similar public entity
24 created under the laws of the state of Connecticut and exclusive of
25 such exempt-interest dividends derived from obligations, the income
26 with respect to which taxation by any state is prohibited by federal
27 law; [.]

28 (iii) [any] Any interest or dividend income on obligations or
29 securities of any authority, commission or instrumentality of the
30 United States which federal law exempts from federal income tax but
31 does not exempt from state income taxes; [.]

32 (iv) [to] To the extent included in gross income for federal income
33 tax purposes for the taxable year, the total taxable amount of a lump
34 sum distribution for the taxable year deductible from such gross
35 income in calculating federal adjusted gross income; [.]

36 (v) [to] To the extent properly includable in determining the net
37 gain or loss from the sale or other disposition of capital assets for
38 federal income tax purposes, any loss from the sale or exchange of
39 obligations issued by or on behalf of the state of Connecticut, any
40 political subdivision thereof, or public instrumentality, state or local
41 authority, district or similar public entity created under the laws of the
42 state of Connecticut, in the income year such loss was recognized; [.]

43 (vi) [to] To the extent deductible in determining federal adjusted
44 gross income, any income taxes imposed by this state; [.]

45 (vii) [to] To the extent deductible in determining federal adjusted
46 gross income, any interest on indebtedness incurred or continued to
47 purchase or carry obligations or securities the interest on which is
48 exempt from tax under this chapter; [.]

49 (viii) [expenses] Expenses paid or incurred during the taxable year
50 for the production or collection of income which is exempt from
51 taxation under this chapter or the management, conservation or
52 maintenance of property held for the production of such income, and
53 the amortizable bond premium for the taxable year on any bond the
54 interest on which is exempt from tax under this chapter to the extent
55 that such expenses and premiums are deductible in determining
56 federal adjusted gross income; [.]

57 (ix) [for] For property placed in service after [September 10, 2001,
58 but prior to September 11, 2004, in taxable years ending after
59 September 10, 2001,] September 27, 2017, fifty per cent of any
60 additional allowance for depreciation under subsection (k) of Section
61 168 of the Internal Revenue Code, [as provided by Section 101 of the
62 Job Creation and Worker Assistance Act of 2002,] to the extent
63 deductible in determining federal adjusted gross income; [.]

64 (x) [to] To the extent deductible in determining federal adjusted
65 gross income, the deduction allowable as qualified domestic
66 production activities income, pursuant to Section 199 of the Internal
67 Revenue Code; [.]

68 (xi) [to] To the extent not properly includable in gross income for
69 federal income tax purposes for the taxable year, any income from the
70 discharge of indebtedness, in taxable years ending after December 31,
71 2008, in connection with any reacquisition, after December 31, 2008,
72 and before January 1, 2011, of an applicable debt instrument or
73 instruments, as those terms are defined in Section 108 of the Internal
74 Revenue Code, as amended by Section 1231 of the American Recovery
75 and Reinvestment Act of 2009, the inclusion of which income in federal
76 gross income for the taxable year is deferred, as provided by said
77 Section 1231; [.]

78 (xii) ~~[to]~~ To the extent not properly includable in gross income for
79 federal income tax purposes, an amount equal to (I) any distribution
80 from a manufacturing reinvestment account not used in accordance
81 with subdivision (3) of subsection (c) of section 32-9zz to the extent
82 that a contribution to such account was subtracted from federal
83 adjusted gross income pursuant to clause (xix) of subparagraph (B) of
84 this subdivision in computing Connecticut adjusted gross income for
85 the current or a preceding taxable year, and (II) any return of money
86 from a manufacturing reinvestment account pursuant to subsection (d)
87 of section 32-9zz to the extent that a contribution to such account was
88 subtracted from federal adjusted gross income pursuant to clause (xix)
89 of subparagraph (B) of this subdivision in computing Connecticut
90 adjusted gross income for the current or a preceding taxable year; ~~;~~
91 and]

92 (xiii) ~~[to]~~ To the extent not properly includable in gross income for
93 federal income tax purposes, an amount equal to any compensation
94 required to be recognized under Section 457A of the Internal Revenue
95 Code that is attributable to services performed within this state; and

96 (xiv) For taxable years commencing on or after January 1, 2018, fifty
97 per cent of any deduction claimed for federal purposes under Section
98 179 of the Internal Revenue Code.

99 (B) There shall be subtracted therefrom:

100 (i) ~~[to]~~ To the extent properly includable in gross income for federal
101 income tax purposes, any income with respect to which taxation by
102 any state is prohibited by federal law; ~~;~~]

103 (ii) ~~[to]~~ To the extent allowable under section 12-718, exempt
104 dividends paid by a regulated investment company; ~~;~~]

105 (iii) To the extent properly includable in gross income for federal
106 income tax purposes, the amount of any refund or credit for
107 overpayment of income taxes imposed by this state, or any other state
108 of the United States or a political subdivision thereof, or the District of

109 Columbia; [, to the extent properly includable in gross income for
110 federal income tax purposes,]

111 (iv) [to] To the extent properly includable in gross income for
112 federal income tax purposes and not otherwise subtracted from federal
113 adjusted gross income pursuant to clause (x) of this subparagraph in
114 computing Connecticut adjusted gross income, any tier 1 railroad
115 retirement benefits; [,]

116 (v) [to] To the extent any additional allowance for depreciation
117 under Section 168(k) of the Internal Revenue Code [, as provided by
118 Section 101 of the Job Creation and Worker Assistance Act of 2002,] for
119 property placed in service after [December 31, 2001, but prior to
120 September 10, 2004] September 27, 2017, was added to federal adjusted
121 gross income pursuant to subparagraph (A)(ix) of this subdivision in
122 computing Connecticut adjusted gross income, [for a taxable year
123 ending after December 31, 2001, twenty-five per cent of such
124 additional allowance for depreciation in each of the four succeeding
125 taxable years,] the remaining amount of the disallowed portion of the
126 additional allowance in the succeeding taxable year;

127 (vi) [to] To the extent properly includable in gross income for
128 federal income tax purposes, any interest income from obligations
129 issued by or on behalf of the state of Connecticut, any political
130 subdivision thereof, or public instrumentality, state or local authority,
131 district or similar public entity created under the laws of the state of
132 Connecticut; [,]

133 (vii) [to] To the extent properly includable in determining the net
134 gain or loss from the sale or other disposition of capital assets for
135 federal income tax purposes, any gain from the sale or exchange of
136 obligations issued by or on behalf of the state of Connecticut, any
137 political subdivision thereof, or public instrumentality, state or local
138 authority, district or similar public entity created under the laws of the
139 state of Connecticut, in the income year such gain was recognized; [,]

140 (viii) [any] Any interest on indebtedness incurred or continued to

141 purchase or carry obligations or securities the interest on which is
142 subject to tax under this chapter but exempt from federal income tax,
143 to the extent that such interest on indebtedness is not deductible in
144 determining federal adjusted gross income and is attributable to a
145 trade or business carried on by such individual; [,]

146 (ix) [ordinary] Ordinary and necessary expenses paid or incurred
147 during the taxable year for the production or collection of income
148 which is subject to taxation under this chapter but exempt from federal
149 income tax, or the management, conservation or maintenance of
150 property held for the production of such income, and the amortizable
151 bond premium for the taxable year on any bond the interest on which
152 is subject to tax under this chapter but exempt from federal income tax,
153 to the extent that such expenses and premiums are not deductible in
154 determining federal adjusted gross income and are attributable to a
155 trade or business carried on by such individual; [,]

156 (x) (I) [for] For taxable years commencing prior to January 1, 2019,
157 for a person who files a return under the federal income tax as an
158 unmarried individual whose federal adjusted gross income for such
159 taxable year is less than fifty thousand dollars, or as a married
160 individual filing separately whose federal adjusted gross income for
161 such taxable year is less than fifty thousand dollars, or for a husband
162 and wife who file a return under the federal income tax as married
163 individuals filing jointly whose federal adjusted gross income for such
164 taxable year is less than sixty thousand dollars or a person who files a
165 return under the federal income tax as a head of household whose
166 federal adjusted gross income for such taxable year is less than sixty
167 thousand dollars, an amount equal to the Social Security benefits
168 includable for federal income tax purposes;

169 (II) [for] For taxable years commencing prior to January 1, 2019, for
170 a person who files a return under the federal income tax as an
171 unmarried individual whose federal adjusted gross income for such
172 taxable year is fifty thousand dollars or more, or as a married
173 individual filing separately whose federal adjusted gross income for

174 such taxable year is fifty thousand dollars or more, or for a husband
175 and wife who file a return under the federal income tax as married
176 individuals filing jointly whose federal adjusted gross income from
177 such taxable year is sixty thousand dollars or more or for a person who
178 files a return under the federal income tax as a head of household
179 whose federal adjusted gross income for such taxable year is sixty
180 thousand dollars or more, an amount equal to the difference between
181 the amount of Social Security benefits includable for federal income tax
182 purposes and the lesser of twenty-five per cent of the Social Security
183 benefits received during the taxable year, or twenty-five per cent of the
184 excess described in Section 86(b)(1) of the Internal Revenue Code;

185 (III) [for] For the taxable year commencing January 1, 2019, and each
186 taxable year thereafter, for a person who files a return under the
187 federal income tax as an unmarried individual whose federal adjusted
188 gross income for such taxable year is less than seventy-five thousand
189 dollars, or as a married individual filing separately whose federal
190 adjusted gross income for such taxable year is less than seventy-five
191 thousand dollars, or for a husband and wife who file a return under
192 the federal income tax as married individuals filing jointly whose
193 federal adjusted gross income for such taxable year is less than one
194 hundred thousand dollars or a person who files a return under the
195 federal income tax as a head of household whose federal adjusted
196 gross income for such taxable year is less than one hundred thousand
197 dollars, an amount equal to the Social Security benefits includable for
198 federal income tax purposes; and

199 (IV) [for] For the taxable year commencing January 1, 2019, and each
200 taxable year thereafter, for a person who files a return under the
201 federal income tax as an unmarried individual whose federal adjusted
202 gross income for such taxable year is seventy-five thousand dollars or
203 more, or as a married individual filing separately whose federal
204 adjusted gross income for such taxable year is seventy-five thousand
205 dollars or more, or for a husband and wife who file a return under the
206 federal income tax as married individuals filing jointly whose federal
207 adjusted gross income from such taxable year is one hundred

208 thousand dollars or more or for a person who files a return under the
209 federal income tax as a head of household whose federal adjusted
210 gross income for such taxable year is one hundred thousand dollars or
211 more, an amount equal to the difference between the amount of Social
212 Security benefits includable for federal income tax purposes and the
213 lesser of twenty-five per cent of the Social Security benefits received
214 during the taxable year, or twenty-five per cent of the excess described
215 in Section 86(b)(1) of the Internal Revenue Code; [.]

216 (xi) [to] To the extent properly includable in gross income for
217 federal income tax purposes, any amount rebated to a taxpayer
218 pursuant to section 12-746; [.]

219 (xii) [to] To the extent properly includable in the gross income for
220 federal income tax purposes of a designated beneficiary, any
221 distribution to such beneficiary from any qualified state tuition
222 program, as defined in Section 529(b) of the Internal Revenue Code,
223 established and maintained by this state or any official, agency or
224 instrumentality of the state; [.]

225 (xiii) [to] To the extent allowable under section 12-701a,
226 contributions to accounts established pursuant to any qualified state
227 tuition program, as defined in Section 529(b) of the Internal Revenue
228 Code, established and maintained by this state or any official, agency
229 or instrumentality of the state; [.]

230 (xiv) [to] To the extent properly includable in gross income for
231 federal income tax purposes, the amount of any Holocaust victims'
232 settlement payment received in the taxable year by a Holocaust victim;
233 [.]

234 (xv) [to] To the extent properly includable in gross income for
235 federal income tax purposes of an account holder, as defined in section
236 31-51ww, interest earned on funds deposited in the individual
237 development account, as defined in section 31-51ww, of such account
238 holder; [.]

239 (xvi) [to] To the extent properly includable in the gross income for
240 federal income tax purposes of a designated beneficiary, as defined in
241 section 3-123aa, interest, dividends or capital gains earned on
242 contributions to accounts established for the designated beneficiary
243 pursuant to the Connecticut Homecare Option Program for the Elderly
244 established by sections 3-123aa to 3-123ff, inclusive; [.]

245 (xvii) [to] To the extent properly includable in gross income for
246 federal income tax purposes, any income received from the United
247 States government as retirement pay for a retired member of (I) the
248 Armed Forces of the United States, as defined in Section 101 of Title 10
249 of the United States Code, or (II) the National Guard, as defined in
250 Section 101 of Title 10 of the United States Code; [.]

251 (xviii) [to] To the extent properly includable in gross income for
252 federal income tax purposes for the taxable year, any income from the
253 discharge of indebtedness in connection with any reacquisition, after
254 December 31, 2008, and before January 1, 2011, of an applicable debt
255 instrument or instruments, as those terms are defined in Section 108 of
256 the Internal Revenue Code, as amended by Section 1231 of the
257 American Recovery and Reinvestment Act of 2009, to the extent any
258 such income was added to federal adjusted gross income pursuant to
259 subparagraph (A)(xi) of this subdivision in computing Connecticut
260 adjusted gross income for a preceding taxable year; [.]

261 (xix) [to] To the extent not deductible in determining federal
262 adjusted gross income, the amount of any contribution to a
263 manufacturing reinvestment account established pursuant to section
264 32-9zz in the taxable year that such contribution is made; [.]

265 (xx) [to] To the extent properly includable in gross income for
266 federal income tax purposes, (I) for the taxable year commencing
267 January 1, 2015, ten per cent of the income received from the state
268 teachers' retirement system, (II) for the taxable years commencing
269 January 1, 2016, January 1, 2017, and January 1, 2018, twenty-five per
270 cent of the income received from the state teachers' retirement system,
271 and (III) for the taxable year commencing January 1, 2019, and each

272 taxable year thereafter, fifty per cent of the income received from the
273 state teachers' retirement system or the percentage, if applicable,
274 pursuant to clause (xxi) of this subparagraph; [,]

275 (xxi) [to] To the extent properly includable in gross income for
276 federal income tax purposes, except for retirement benefits under
277 clause (iv) of this subparagraph and retirement pay under clause (xvii)
278 of this subparagraph, for a person who files a return under the federal
279 income tax as an unmarried individual whose federal adjusted gross
280 income for such taxable year is less than seventy-five thousand dollars,
281 or as a married individual filing separately whose federal adjusted
282 gross income for such taxable year is less than seventy-five thousand
283 dollars, or as a head of household whose federal adjusted gross income
284 for such taxable year is less than seventy-five thousand dollars, or for a
285 husband and wife who file a return under the federal income tax as
286 married individuals filing jointly whose federal adjusted gross income
287 for such taxable year is less than one hundred thousand dollars, (I) for
288 the taxable year commencing January 1, 2019, fourteen per cent of any
289 pension or annuity income, (II) for the taxable year commencing
290 January 1, 2020, twenty-eight per cent of any pension or annuity
291 income, (III) for the taxable year commencing January 1, 2021, forty-
292 two per cent of any pension or annuity income, (IV) for the taxable
293 year commencing January 1, 2022, fifty-six per cent of any pension or
294 annuity income, (V) for the taxable year commencing January 1, 2023,
295 seventy per cent of any pension or annuity income, (VI) for the taxable
296 year commencing January 1, 2024, eighty-four per cent of any pension
297 or annuity income, and (VII) for the taxable year commencing January
298 1, 2025, any pension or annuity income; [,]

299 (xxii) [the] The amount of lost wages and medical, travel and
300 housing expenses, not to exceed ten thousand dollars in the aggregate,
301 incurred by a taxpayer during the taxable year in connection with the
302 donation to another person of an organ for organ transplantation
303 occurring on or after January 1, 2017; [, and]

304 (xxiii) [to] To the extent properly includable in gross income for

305 federal income tax purposes, the amount of any financial assistance
306 received from the Crumbling Foundations Assistance Fund or paid to
307 or on behalf of the owner of a residential building pursuant to sections
308 8-442 and 8-443; and

309 (xxiv) To the extent any portion of a deduction under Section 179 of
310 the Internal Revenue Code was added to federal adjusted gross income
311 pursuant to subparagraph (A)(xiv) of this subdivision in computing
312 Connecticut adjusted gross income, the remaining amount of such
313 disallowed portion of the deduction in the succeeding taxable year.

314 Sec. 2. Subsection (b) of section 12-217 of the 2018 supplement to the
315 general statutes is repealed and the following is substituted in lieu
316 thereof (*Effective from passage*):

317 (b) (1) For purposes of determining net income under this section,
318 the deduction allowed for depreciation shall be determined as
319 provided under the Internal Revenue Code of 1986, or any subsequent
320 corresponding internal revenue code of the United States, as from time
321 to time amended, provided in making such determination, the
322 provisions of Section 168(k) of said code shall not apply.

323 (2) (A) For purposes of determining net income under this section
324 for taxable years ending after December 31, 2008, and to the extent any
325 income from the discharge of indebtedness, under Section 108 of the
326 Internal Revenue Code, as amended by Section 1231 of the American
327 Recovery and Reinvestment Act of 2009, in connection with any
328 reacquisition, after December 31, 2008, and before January 1, 2011, of
329 an applicable debt instrument or instruments, as those terms are
330 defined in said Section 108, as amended by said Section 1231, is not
331 properly includable in gross income for federal income tax purposes
332 for the taxable year, any deferral of the recognition of any such income
333 shall not be allowed.

334 (B) To the extent that any income from the discharge of
335 indebtedness in connection with any reacquisition, after December 31,
336 2008, and before January 1, 2011, of an applicable debt instrument or

337 instruments, as those terms are defined in Section 108 of the Internal
338 Revenue Code, as amended by Section 1231 of the American Recovery
339 and Reinvestment Act of 2009, is properly includable in gross income
340 for federal income tax purposes for the taxable year, any such income
341 shall be deductible in computing net income under this section for a
342 taxable year ending after December 31, 2008, to the extent that the
343 deferral of recognition of such income from such discharge was not
344 allowed pursuant to subparagraph (A) of this subdivision in
345 computing net income for a preceding taxable year.

346 (C) For income years commencing on or after January 1, 2018, fifty
347 per cent of any deduction claimed under Section 179 of the Internal
348 Revenue Code for federal income tax purposes shall be disallowed. To
349 the extent such a deduction is disallowed for purposes of computing
350 the tax under this chapter, the remaining amount of the disallowed
351 portion of the deduction shall be allowed as a deduction in the
352 succeeding income year.

353 Sec. 3. Subdivision (1) of subsection (a) of section 12-219 of the
354 general statutes is repealed and the following is substituted in lieu
355 thereof (*Effective from passage*):

356 (a) (1) Each company subject to the provisions of this part shall pay
357 for the privilege of carrying on or doing business within the state, the
358 larger of the tax, if any, imposed by section 12-214 and the tax
359 calculated under this subsection. The tax calculated under this section
360 shall be a tax of (A) three and one-tenth mills per dollar for [each] the
361 income year commencing on or after January 1, 2018, and prior to
362 January 1, 2019, (B) two and one-tenth mills per dollar for the income
363 year commencing on or after January 1, 2019, and prior to January 1,
364 2020, (C) one and one-tenth mills per dollar for the income year
365 commencing on or after January 1, 2020, and prior to January 1, 2021,
366 and (D) zero mills per dollar on and after January 1, 2021, of the
367 amount derived [(A)] (i) by adding [(i)] (I) the average value of the
368 issued and outstanding capital stock, including treasury stock at par or
369 face value, fractional shares, scrip certificates convertible into shares of

370 stock and amounts received on subscriptions to capital stock,
 371 computed on the balances at the beginning and end of the taxable year
 372 or period, the average value of surplus and undivided profit computed
 373 on the balances at the beginning and end of the taxable year or period,
 374 and [(ii)] (II) the average value of all surplus reserves computed on the
 375 balances at the beginning and end of the taxable year or period, [(B)]
 376 (ii) by subtracting from the sum so calculated [(i)] (I) the average value
 377 of any deficit carried on the balance sheet computed on the balances at
 378 the beginning and end of the taxable year or period, and [(ii)] (II) the
 379 average value of any holdings of stock of private corporations
 380 including treasury stock shown on the balance sheet computed on the
 381 balances at the beginning and end of the taxable year or period, and
 382 [(C)] (iii) by apportioning the remainder so derived between this and
 383 other states under the provisions of section 12-219a, provided in no
 384 event shall the tax so calculated exceed one million dollars or be less
 385 than two hundred fifty dollars.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage and applicable to taxable years commencing on or after January 1, 2017</i>	12-701(a)(20)(A) and (B)
Sec. 2	<i>from passage</i>	12-217(b)
Sec. 3	<i>from passage</i>	12-219(a)(1)

FIN *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 19 \$	FY 20 \$
Department of Revenue Services	GF - Revenue Loss	11.4 million	29.2 million
Department of Revenue Services	GF - Revenue Impact	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill phases out the capital base tax calculation method under the Corporation Business Tax, which results in a revenue loss of \$11.4 million in FY 19, \$29.2 million in FY 20, \$46.2 million in FY 21, and \$53 million in FY 22 and annually thereafter.

The bill also establishes an alternative schedule for bonus depreciation and asset expensing under the Personal Income Tax and Corporation Business Tax, which shifts the timing of a revenue deferral. This diminishes the degree to which revenue is reduced in the early years and is increased in later years.¹ The total annual amount of state revenue impacted by the alternative bonus depreciation and asset expensing schedule is estimated to be less than \$50 million and less than \$20 million, respectively.

The Out Years

¹ The alternative schedule for bonus depreciation and asset expensing under the bill occurs over two years.

State Impact:

Agency Affected	Fund-Effect	FY 21 \$	FY 22 \$	FY 23 \$
Department of Revenue Services	GF - Revenue Loss	46.2 million	53 million	53 million
Department of Revenue Services	GF - Revenue Impact	See Above	See Above	See Above

Note: GF=General Fund

Municipal Impact: None

Sources: Department of Revenue Services
Joint Committee on Taxation Analysis of 2017 Tax Cuts and Jobs Act

OLR Bill Analysis**HB 5581*****AN ACT CONCERNING FEDERAL TAX BENEFITS AND THE CAPITAL STOCK TAX RATE.*****SUMMARY**

This bill phases out the capital base tax on corporations over three years, from 2019 to 2021. Currently, the tax rate is 3.1 mills per dollar of a corporation's capital base (i.e., its net worth apportioned to Connecticut). Under the bill, the rate decreases to 2.1 mills in 2019, 1.1 mills in 2020, and zero mills beginning in 2021. The capital base tax is a component of the state's corporation business tax. Under current law, for most corporations, the tax rate is (1) 7.5% of net income, (2) 3.1 mills per dollar of capital base (up to \$1 million), or (3) \$250, whichever produces the larger tax.

The bill also requires taxpayers to make certain adjustments to federal business tax deductions for bonus depreciation and asset expensing for purposes of state personal income and corporation business tax (see BACKGROUND). Beginning with the 2017 tax year, it requires individuals receiving income from pass-through businesses (e.g., limited liability partnerships and limited liability companies) to add back half of the federal bonus depreciation deduction for property placed in service after September 27, 2017, when calculating their Connecticut adjusted gross income for the state personal income tax. But it allows them to deduct the disallowed portion in the succeeding tax year. Existing law, unchanged by the bill, disallows the federal bonus depreciation deduction for state corporation business tax purposes.

The bill requires individuals and corporations, for state personal income and corporation business tax purposes, respectively, to add back half of the federal deduction for the cost of qualifying property

(“section 179 property”). They must do so for tax years (for personal income tax) or income years (for corporation business tax) beginning on or after January 1, 2018. The bill allows them to deduct the disallowed portion in the succeeding tax year.

EFFECTIVE DATE: Upon passage; the personal income tax provisions are applicable to tax years beginning on or after January 1, 2017.

BACKGROUND

Bonus Depreciation Deduction (26 USC § 168(k))

The federal Tax Cuts and Jobs Act of 2017 authorizes a first-year bonus depreciation deduction of 100% on qualified new and used property businesses place in service after September 27, 2017, and before January 1, 2023 (the rate phases down by 20% each year thereafter). Prior law generally provided for a 50% bonus depreciation deduction in 2017, 40% in 2018, and 30% in 2019.

Asset Expensing (26 USC § 179)

Under federal law, businesses can elect to treat the cost of qualifying property (“section 179 property”) as a deductible expense rather than a capital expenditure, subject to a maximum deduction and investment limitation. The federal Tax Cuts and Jobs Act of 2017 expands the type of property that taxpayers may elect to treat as section 179 property and increases the (1) maximum deduction for section 179 expensing from \$510,000 to \$1 million and (2) investment limitation from \$2.03 million to \$2.5 million. The increases are permanent and inflation-adjusted each year. (The investment limitation reduces the maximum deduction allowed, dollar for dollar, by the amount of section 179 property placed in service during the tax year that exceeds the limit.)

Related Bill

sSB 11, favorably reported by the Finance, Revenue and Bonding Committee, requires business taxpayers to spread out their federal bonus depreciation and asset expensing deductions over four and five years, respectively.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 47 Nay 4 (04/05/2018)